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**RE: UPDATED AND NEW INFORMATION ABOUT W-2 REALLOCATIONS FOR
BALANCE OF 2002-2003 CONTRACTS**

Dear

I appreciate your strong partnership in operating our state's W-2 program and your strong advocacy on behalf of your customers. I write to update you on how DWD made decisions regarding the \$2.6 million we had to cut from Wisconsin's W-2 agencies for the balance of the current 2002-2003 W-2 contract cycle, but most importantly, to share new and positive information about our ability to meet the needs of all eligible statewide W-2 participants through the end of the current W-2 contract cycle, allowing counties the flexibility to continue their programs.

DWD used the formula and methodology of the non-partisan Legislative Fiscal Bureau to cut \$2.6 million from 2002-2003 W-2 contracts

- The state budget, Wisconsin Act 33, given the state's extraordinary \$3.2 billion deficit as well as a \$94 million TANF structural deficit, required that DWD cut \$2.6 million from the state's 02-03 contracts with W-2 agencies;
- Under Chapter 49 of the statutes, DWD's authority to review and reallocate the funding levels in the W-2 contracts is a clear and very necessary part of DWD's responsibility to administer the W-2 program;
- All W-2 agencies sign contracts with language noting that legislative and budget appropriation changes may require DWD to make changes to W-2 contracts during the terms of the contracts;
- In August, after seeking but not finding consensus from the W-2 agencies on how to make the cuts, DWD used the expenditure projections model developed by the non-partisan Legislative Fiscal Bureau for the W-2 contingency fund decisions that the Joint Finance Committee had to make this past May;
- The LFB formula was based upon the most current W-2 caseload and spending patterns;

- To achieve the \$2.6 million cut, DWD looked at every W-2 agency's most recent spending and identified reallocation of funds based on these patterns and anticipated statewide agency surpluses and deficits for the balance of 2003;
- Knowing that the agencies needed timely reallocation decisions from DWD, and based on the most recent W-2 agency spending data we had, which was through June 2003, we communicated reallocation decisions to the agencies in September, indicating that we would also redirect any unused agency surplus funds to those agencies with deficits;
- Based on the data we had from W-2 agencies at that time, we projected that DWD reallocations would address the statewide need for the remaining contract months;
- Using this LFB formula, a mix of counties throughout the state was helped, including those which otherwise would have had deficits such as Milwaukee, Marinette, Kenosha, Dunn, Clark, Crawford and Green Lake;
- Regarding questions about the reallocation to YW Works, the Y's caseload driven expenditures projected through the balance of this year require this increase to serve the needs of their W-2 participants;
- Of the \$5.6 million that was reallocated to YW Works, \$1.5 million of that amount was actually generated by the Y from their non-W-2 resources;
- Of the funding reallocated to the Y, DWD will ensure, as we will with every W-2 agency in the state, that no agency use more than 15% of its total W-2 funding on administration and that spending in services is in line with overall caseload.

Based upon the expenditure and caseload data submitted by all W-2 agencies through June, in September DWD reallocated the funds to meet greatest needs

- Whereas at the beginning of the contract period, there were approximately 9,000 paid participants on W-2, that number has now grown to 11,188, a dramatic 24% increase during the contract year and a 32% increase over the 8,500 caseload count budgeted for the contract;
- Very hardest hit is Milwaukee, where unemployment has just risen again to a staggering 10.7%, versus 5.4% statewide;
- In developing reallocation decisions in September, DWD looked at reported caseloads and spending by agency, working to ensure that the dollars would be directed to where the W-2 participants reside;
- DWD ultimately rejected across-the-board cuts because that would have penalized counties and W-2 agencies already short of funds – the fairest approach was to reallocate the contract amounts based on the LFB formula that reflected actual spending and need-based allocations;

- To achieve the \$2.6 million cut, as we looked at the statewide W-2 agency overspending and underspending, DWD redirected an estimated \$13 million in funds from where there was projected underspending to where there was a projected shortage of funds;
- Through this action, DWD was able to achieve the \$2.6 million cut while also balancing the contracts based on where there was the most need statewide;
- Had DWD not done this, unused funds would not have reached areas of need in time to be of assistance;
- Historically 65% of the state's W-2 dollars have gone to Milwaukee, even though 78% of the participants live there;
- DWD's September reallocations, given the often-higher relative costs of running smaller operations, would still have directed 30% of the funds outside of Milwaukee, even though only 22% of the caseload resides there.

Based on more recent data through August, some W-2 agencies have now reported that they will need additional funds to meet their needs through 2003 and DWD will take new steps to fully address these needs

- Based on updated W-2 agency data through August, and with the leadership and initiative of John Rathman, Manager of the Outagamie County Department of Health and Human Services, DWD has now been given more current information about projected W-2 agency expenditures through 2003;
- This information is based on your agency's most current records, and as a result, is more up-to-date than what the W-2 agencies had reported to DWD through June and was then reflected in DWD's financial systems as of August;
- Through Mr. Rathman's helpful work and the cooperation of counties and W-2 agencies throughout the state, 36 of the state's 69 W-2 agencies have just reported that they will return \$9.6 million, or 75%, of the W-2 funds that DWD was seeking from these agencies to redirect to areas of greatest unmet state need in 2003;
- Based on these new projections just reported by the W-2 agencies, DWD and the agencies now estimate that the W-2 program will require up to approximately \$2 million through 2003 to meet statewide needs;
- Due to the work of DWD and our partner W-2 agencies, the U.S. Department of Health and Human Services just awarded DWD a \$10.3 million high performance TANF bonus;
- DWD will be recommending to the Joint Finance Committee that it allocate up to \$2 million of this DHHS bonus to those W-2 agencies now reporting that they will have deficits by the end of 2003;

- DWD is considering other important needs for the balance of the bonus funding such as childcare, Workforce Advancement and Attachment, transportation, and others;
- This updated plan will ensure that those W-2 agencies now anticipating deficits by the end of 2003 will be able to meet their needs, for example:
 - Outagamie County will be eligible for the \$141,784 they now anticipate needing to continue their 2003 operations; and
 - the Southwest Consortium will be eligible for the \$238,697 they now project needing.

I hope that this information is helpful and please let me know if you have any other questions that I may answer.

Again, I appreciate the important collaboration between DWD and all of our partner W-2 agencies and I look forward to working together closely on our many other shared challenges ahead.

Sincerely,

Roberta Gassman
Secretary